

Message Text

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ACTION EB-07

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E.O. 11652: N/A
TAGS: EFIN, EPEP, ET, EAGR
SUBJECT: COFFEE SURTAX REVISION

REF: ADDIS ABABA 12260 (NOTAL)

1. EMB DISCUSSED NEW ETHIOPIAN COFFEE TAX WITH MARKETING
MANAGER OF KENYA'S COFFEE BOARD, WHO SAID THIS WAS FIRST
HE HEARD OF INCREASE. FROM HIS EXPERIENCE, HE TENDED TO
DISCOUNT POSSIBILITY OF SIGNIFICANT SMUGGLING OPERATIONS
THROUGH KENYA. PRIMARY DISINCENTIVE WOULD BE DISTANCE AND
LACK OF CONVENIENT TRANSPORTATION THROUGH DIFFICULT TERRAIN
OF NORTHEASTERN KENYA. OFFICIAL ALSO FELT ESTABLISHED
MARKETING SYSTEM IN ETHIOPIA WAS SO RUDIMENTARY THAT
FARMERS WERE UNLIKELY TO ABANDON TRADITIONAL PURCHASING
AGENTS TO EMBARK ON INDEPENDENT, ILLEGAL DISTRIBUTION
THROUGH HERETOFORE UNKNOWN CHANNELS. HOWEVER, THIS
REASONING WAS BASED ON MANAGER'S EXPERIENCE IN ETHIOPIA
DURING LATE 1960'S. HE ADMITTED THAT NEW REGIME'S
SUCCESS IN REACHING RURAL POPULATION MAY HAVE SUBSEQUENTLY
INCREASED FARMER SOPHISTICATION AND IMPROVED ACCESS TO GOVERNMENT-
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CONTROLLED MARKETING FACILITIES.

2. EMB IS UNDOUBTEDLY FAMILIAR WITH PROBLEM KENYA
EXPERIENCING WITH SMUGGLED UGANDAN COFFEE. FROM OUR
ASSESSMENT HOWEVER, UGANDAN SITUATION PROBABLY MORE CON-
DUCIVE TO THESE ILLEGAL OPERATIONS THAN THAT PREVAILING

IN ETHIOPIA. GOU, FOR INSTANCE, IS REPORTEDLY SIPHONING OFF ABOUT 50 PERCENT OF COFFEE EXPORT REVENUE BEFORE PASSING SALES PROCEEDS TO GROWERS. LARGE DISCREPANCY BETWEEN UNOFFICIAL AND OFFICIAL EXCHANGE RATES HAS BEEN A PERSISTENT INCENTIVE FOR UGANDANS TO ACQUIRE KENYAN CURRENCY. COFFEE CAN, IN ADDITION, BE BARTERED FOR VALUABLE FOODSTUFFS OR OTHER COMMODITIES UNAVAILABLE ON UGANDAN MARKET.

3. BASIC ECONOMIC MOTIVATIONS ASIDE, SMUGGLING IS ALSO ENHANCED BY EXCELLENT TRANSPORTATION LINKS BETWEEN UGANDA AND KENYA. UGANDAN EXPORTS MUST TRANSIT KENYA ANYWAY FOR OVERSEAS DELIVERY THROUGH MOMBASA. MOREOVER, COFFEE IS ONLY THE LATEST AND MOST LUCRATIVE COMMODITY INVOLVED IN ILLEGAL TRADE, SO PRESUMABLY THE "CONTACTS" ARE ALREADY WELL-ESTABLISHED.

4. THE UGANDA-KENYA CONNECTION HAS BEEN FACILITATED BY A BENIGN GOK ATTITUDE, BORN IN PART OUT OF A REALISTIC APPRAISAL OF ITS ABILITY TO EVER COMPLETELY BLOCK THE MOVEMENT. VIOLENCE HAS ERUPTED RECENTLY BUT IS CONFINED, ON THE KENYAN SIDE, TO "TRADER" SKIRMISHES OVER THE SPOILS. WE WONDER WHETHER THE SAME OFFICIAL TOLERANCE WOULD BE EXHIBITED ON THE NORTHERN BORDER, WHERE ROADS ARE MORE EASILY PATROLLED.

5. ANY INFO FROM THE ETHIOPIAN SIDE ABOUT DEVELOPMENTS IN ILLEGAL COFFEE TRADING WILL BE APPRECIATED. MEANWHILE WE WILL BE ALERT TO SIMILAR REPORTS IN THE KENYAN MARKET.

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6. SEPTTEL REPLYING TO DEPT. REQUEST FOR UPDATE ON LOCAL COFFEE PRICES CONTAINS FURTHER COMMENTS ON UGANDAN COFFEE SMUGGLING.

DECONTROL 01/01/78
MARSHALL

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